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Trade Policy Monitoring

Biofuels Update--Spain's New Renewable Fuels Plan 2005-2010 2005

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Report Highlights: The Government of Spain (GOS) has just approved a new national energy plan (Renewable Energy Plan 2005-2010 (REP)) designed to further enhance the production and use of renewable energy. Among other points, the REP establishes a framework to evaluate and promote new agricultural commodities for use in biofuel production and tax incentives for its consumption. However, our forecast for the potential production of biofuels in Spain, contained in SP5019 remains unchanged. (CM8SH6)

Includes PSD Changes: No
Includes Trade Matrix: No
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Madrid [SP1]
[SP]

Based on our understanding of the new REP, it seems unlikely that local farmers will find additional biofuel feedstock production opportunities resulting from proposed REP measures. The REP identifies local agricultural biofuel feedstock production as an important part of the GOS's new energy plan. However, it does not address the fact that Spain is, and will likely remain a feed-deficit market, because of comparative economic advantages related to climate, geography, culture, and infrastructure. As a result, it will be difficult for the GOS to promote sufficient additional biofuel feedstock production, in addition to and in competition with that needed for livestock production with the measures as proposed in the REP.

Drafters of the REP appear to identify decoupling, resulting from Common Agriculture Policy (CAP) reform, as a potential problem for the production of biofuel feedstock, and suggest measures to address the problem. In SP5019, we identified 1.5 million metric tons of wheat and barley that will likely be used from this year's domestic crop for ethanol production. However, we also suggested that without change to the current legislative and political environment, ethanol producers were likely to look at France for their next ethanol plant. The REP proposes a focus on maximizing the potential for biofuel feedstock-subsidy support that may be available under the reformed CAP as the way forward. The new and/or additional subsidies would come from the European Commission's (EC) application of the CAP, and to the extent permissible under the reformed CAP, from the GOS and the Autonomous Regional Governments.

In addition, the REP suggests that there are imbalances between northern European and Spanish oilseed producers, and suggests the need to improve the prospects for Spanish oilseed producers. The GOS proposes developing new biodiesel feedstock that could be grown in Spain as the way forward. Most of the biodiesel in Europe is produced in northern Europe, more than 70 percent currently as we reported in SP5019, which appears to be the imbalance the GOS is focusing on in the REP.

The REP also attempts to establish a framework that will assure that Spanish consumers meet biofuels consumption goals, as established by the EC. In the report published by the Ministry of Industry, Tourism, and Commerce, the GOS outlines the Spanish energy market, identifies barriers to biofuel use, proposes measures, identifies agency responsibility, potential costs and provides a timeline for meeting the measures (Please see the table below for a summary of the specific measures).

Barriers	Measures	Responsibility	Cost	Calendar
Biofuel cost to consumers vis-à-vis petroleum-based fuels	Extend the current fiscal incentives for at least the first 10 years of the plan	Finance Ministry	To be Calculated over the period	2006
Decoupling as outlined in the CAP reform may limit the supply of primary agricultural inputs	Develop all available possibilities within the new CAP, in particular the ones that refer to European and national assistance for the production of biofuel crops.	Ministry of Agriculture Ministry of Economy	No additional cost	2005-2010

Comparatively disadvantaged cereals and oilseed production vis-à-vis Northern Europe	Development and selection of new oilseed types, adapted to the agricultural characteristics of Spain	Ministry of Agriculture Ministry of Industry, Commerce, and Tourism	Evaluation pending	2007-2010
Needed preparation for the general distribution channels of fuels	1. Development of distribution logistics 2. Technical developments relative to the mixture of biofuels and conventional fuels	Ministry of Industry, Tourism, and Commerce	Evaluation pending	2005-2010
Car manufacturer' engine warranties	Certification and vigilance of biofuel quality standards Develop a normative that forces the use of biofuels	Ministry of Industry, Tourism, and Commerce Autonomous Communities	No Cost	2007
High market price of oils for food use, higher than what can be paid for biofuel use	1. Develop used vegetable oil collection logistics 2. Development and selection of new oilseed types, adapted to the agricultural characteristics of Spain	Ministry of Agriculture Ministry of Environment Autonomous Communities	1. No cost 2. Evaluation pending	2005-2010